

Young Adults and the Affordable Care Act: Protecting Young Adults and Eliminating Burdens on Families and Businesses

The Affordable Care Act allows young adults to stay on their parents' health care plan until age 26. Before the President signed this landmark Act into law, many health plans and issuers could and did in fact remove young adults from their parents' policies because of their age, leaving many college graduates and others with no insurance. This helps to explain problems like:

- **Young adults have the highest rate of uninsured of any age group.** About 30% of young adults are uninsured, representing more than one in five of the uninsured. This rate is higher than any other age group, and is three times higher than the uninsured rate among children.
- **Young adults have the lowest rate of access to employer-based insurance.** As young adults transition into the job market, they often have entry-level jobs, part-time jobs, or jobs in small businesses, and other employment that typically comes without employer-sponsored health insurance. The uninsured rate among employed young adults is one-third higher than older employed adults.
- **Young adults' health and finances are at risk.** Contrary to the myth that young people don't need health insurance, one in six young adults has a chronic illness like cancer, diabetes or asthma. Nearly half of uninsured young adults report problems paying medical bills.

Providing Relief for Young Adults

The Affordable Care Act requires plans and issuers that offer coverage to children on their parents' plan to make the coverage available until the adult child reaches the age of 26. Many parents and their children who worried about losing health insurance after the children moved away from home or graduated from college no longer need to worry.

The Departments of Health and Human Services, Labor, and Treasury have issued regulations implementing the Affordable Care Act by expanding dependent coverage for adult children up to age 26. Key elements include:

- **Coverage Extended to More Children.** The goal of this new policy is to cover as many young adults under the age of 26 as possible with the least burden. Plans and issuers that offer dependent coverage must offer coverage to enrollees' adult children until age 26, even if the young adult no longer lives with his or her parents, is not a dependent on a parent's tax return, or is no longer a student. There is a transition for certain existing group plans that generally do not have to provide dependent coverage until 2014 if the adult child has another offer of employer-based coverage aside from coverage through the parent. The new policy providing access for young adults applies to both married and unmarried children, although their own spouses and children do not qualify.
- **Effective for Plan or Policy Years Beginning On or After September 23, 2010.** Secretary Kathleen Sebelius called on leading insurance companies to begin covering young adults voluntarily before the implementation date required by the Affordable Care Act (which is plan or policy years beginning on or after September 23rd). Early implementation would avoid gaps in coverage for new college graduates and other young adults and save on

insurance company administrative costs of dis-enrolling and re-enrolling them between May 2010 and September 23, 2010. Over 65 companies have responded to this call saying they will voluntarily continue coverage for young adults who graduate or age off their parents' insurance before the implementation deadline.

- **All Eligible Young Adults Will Have A Special Enrollment Opportunity.** For plan or policy years beginning on or after September 23, 2010, plans and issuers must give children who qualify an opportunity to enroll that continues for at least 30 days regardless of whether the plan or coverage offers an open enrollment period. This enrollment opportunity and a written notice must be provided not later than the first day of the first plan or policy year beginning on or after September 23, 2010. The new policy does not otherwise change the enrollment period or start of the plan or policy year.
- **Same Benefits/Same Price.** Any qualified young adult must be offered all of the benefit packages available to similarly situated individuals who did not lose coverage because of cessation of dependent status. The qualified individual cannot be required to pay more for coverage than those similarly situated individuals. The new policy applies only to health insurance plans that offer dependent coverage in the first place: while most insurers and employer-sponsored plans offer dependent coverage, there is no requirement to do so.
- **Affordable Premiums.** According to an analysis of this provision, adding young adult coverage would increase average family premiums by as little as .7% while allowing 1.2 million young Americans coverage under their parents' plan through an employer or the individual market.

Access to Insurance: What Young Adults and Parents Need to Do:

- **Check for Immediate Options:** Private health insurance companies that cover the majority of Americans have volunteered to provide coverage earlier than the implementation deadline for young adults losing coverage as a result of graduating from college or aging out of dependent coverage on a family policy. This stop-gap coverage, in many cases, is available now. Ask your employer and insurer about this option.
- **Watch for Open Enrollment:** If early coverage is not an option with your employer or insurance company, then young adults will qualify for an open enrollment period to join their parents' family plan or policy beginning on or after September 23, 2010. Insurers and employers are required to provide notice for this special open enrollment period. Watch for it or ask about it.
- **Expect an Offer of Continued Enrollment:** Insurers and employers that sponsor health plans will inform young adults of continued eligibility for coverage until the age of 26. To get the coverage, young adults and their parents need not do anything but sign up and pay for this option.

New Tax Benefits for Adult Child Coverage

The new regulation complements guidance issued by the Treasury Department on April 27, 2010, on the tax benefits provided for such coverage through the Affordable Care Act. Under a new tax

provision in the Affordable Care Act and the Treasury guidance, the value of any employer-provided health coverage for an employee's child is excluded from the employee's income through the end of the taxable year in which the child turns 26. This tax benefit applies regardless of whether the plan is required by law to extend health care coverage to the adult child or the plan voluntarily extends the coverage.

Key elements include:

- **Tax Benefit Continues Beyond Extended Coverage Requirement.** While the Affordable Care Act requires health care plans to cover enrollees' children up to age 26, some employers may decide to continue coverage beyond the child's 26th birthday. In such a case, the Act provides that the value of the employer-provided health coverage is excluded from the employee's income for the entire taxable year in which the child turns 26. Thus, if a child turns 26 in March but stays on the plan through December 31st (the end of most people's taxable year), all health benefits provided that year are excluded for income tax purposes.
- **Available Immediately.** These tax benefits are effective March 30, 2010. The exclusion applies to any coverage that is provided to an adult child from that date through the end of the taxable year in which the child turns 26.
- **Broad Eligibility.** This expanded health care tax benefit applies to various workplace and retiree health plans. It also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.
- **Both Employer and Employee Shares of Health Premium Are Excluded from Income.** In addition to the exclusion from income of any employer contribution towards qualifying adult child coverage, employees can receive the same tax benefit if they contribute toward the cost of coverage through a "cafeteria plan." This benefit is available immediately, even if the cafeteria plan document has not yet been amended to reflect the change. To reduce the burden on employers, they have until the end of 2010 to amend their cafeteria plan documents to incorporate this change.

Companies Responding To Secretary Sebelius' Call For Early Implementation:

Early implementation by the companies listed below will avoid gaps in coverage for new college graduates and other young adults and save on insurance company administrative costs of disenrolling and re-enrolling them between May 2010 and the start of the plan or policy year beginning on or after September 23, 2010. Early enrollment will also enable young, overwhelmingly healthy people who will not engender large insurance costs to stay in the insurance pool. The following companies have agreed to implement this program before the September 23, 2010 deadline:

Blue Cross and Blue Shield of Alabama
Blue Cross Blue Shield of Delaware
Blue Cross and Blue Shield of Arizona, Inc.
Blue Cross and Blue Shield of Florida
Arkansas Blue Cross and Blue Shield
Blue Cross and Blue Shield of Hawaii
Blue Shield of California
Blue Cross of Idaho Health Service

Regence Blue Shield of Idaho
Wellmark Blue Cross and Blue Shield of Iowa
Health Care Service Corporation
Blue Cross and Blue Shield of Kansas
Blue Cross Blue Shield Association
Blue Cross and Blue Shield of Louisiana
WellPoint, Inc.
CareFirst BlueCross and BlueShield
Blue Cross and Blue Shield of Massachusetts
Blue Cross and Blue Shield of Kansas City
Blue Cross and Blue Shield of Michigan
Blue Cross and Blue Shield of Montana
Blue Cross and Blue Shield of Minnesota
Blue Cross and Blue Shield of Nebraska
Blue Cross & Blue Shield of Mississippi
Horizon Blue Cross and Blue Shield of New Jersey, Inc.
HealthNow New York, Inc.
The Regence Group
Excellus Blue Cross and Blue Shield
Capital BlueCross
Blue Cross and Blue Shield of North Carolina
Independence Blue Cross
BlueCross BlueShield of North Dakota
Highmark, Inc.
Blue Cross of Northeastern Pennsylvania
BlueCross and BlueShield of Tennessee
Blue Cross and Blue Shield of Vermont
Blue Cross & Blue Shield of Rhode Island
Premiera Blue Cross
Blue Cross and Blue Shield of South Carolina
Blue Cross and Blue Shield of Wyoming
Kaiser Permanente
Cigna
Aetna
United
WellPoint
Humana
Capital District Physicians' Health Plan (CDPHP), Albany, New York
Capital Health Plan, Tallahassee, Florida
Care Oregon, Portland, Oregon
Emblem Health, New York, New York
Fallon Community Health Plan, Worcester, Massachusetts
Geisinger Health Plan, Danville, Pennsylvania
Group Health, Seattle, Washington
Group Health Cooperative Of South Central Wisconsin, Madison, Wisconsin
Health Partners, Minneapolis, Minnesota
Independent Health, Buffalo, New York
Kaiser Foundation Health Plan Oakland, California
Martin's Point Health Care, Portland, Maine
New West Health Services, Helena, Mt

The Permanente Federation, Oakland, California
Priority Health, Grand Rapids, Michigan
Scott & White Health Plan, Temple, Texas
Security Health Plan, Marshfield, Wisconsin
Tufts Health Plan, Waltham, Massachusetts
UCARE, Minneapolis, Minnesota
UPMC Health Plan, Pittsburgh, Pennsylvania

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Q: How does the Affordable Care Act help young adults?

A: Before the President signed the Affordable Care Act into law, many health plans and issuers could remove adult children from their parents' policies because of their age, whether or not they were a student or where they lived. The Affordable Care Act requires plans and issuers that offer dependent coverage to make the coverage available until the adult child reaches the age of 26. Many parents and their children who worried about losing health insurance after they graduated from college no longer have to worry.

Q: What plans are required to extend dependent coverage up to age 26?

A: The Affordable Care Act requires plans and issuers that offer dependent coverage to make the coverage available until a child reaches the age of 26. Both married and unmarried children qualify for this coverage. This rule applies to all plans in the individual market and to new employer plans. It also applies to existing employer plans unless the adult child has another offer of employer-based coverage (such as through his or her job). Beginning in 2014, children up to age 26 can stay on their parent's employer plan even if they have another offer of coverage through an employer.

Q: I'm a young adult under the age of 26 and I'm on my parents plan now, but I'm scheduled to lose coverage soon. How can I keep my health insurance?

A: You have a number of options. First, check with your insurance company. Private health insurance companies that cover the majority of Americans have volunteered to provide coverage for young adults losing coverage as a result of graduating from college or aging out of dependent coverage on a family policy. This stop-gap coverage, in many cases, is available now. Second, watch for open enrollment. Young adults may qualify for an open enrollment period to join their parents' family plan or policy on or after September 23, 2010. Insurers and employers are required to provide notice for this special open enrollment period. Watch for it or ask about it. Finally, expect an offer of continued enrollment for plans that begin on or after September 23, 2010. Insurers and employers that sponsor health plans will inform young adults of continued eligibility for coverage until the age of 26. Young adults and their parents need not do anything but sign up and pay for this option.

Q: I'm under the age of 26, and I used to be on my parents' plan, but I recently lost this coverage because I graduated from college. Can I get coverage?

A: Yes. Check with your insurance company to see if they will provide that coverage to you now. If not, watch for the special open enrollment period and sign up then.

Q: Now that the regulation is published, are plans required to immediately enroll eligible young adults in their parents' plan?

A: No. The law says that the extension of dependent coverage for children is effective for plan years beginning on or after 6 months after the enactment of the law – that means plan years beginning on or after September 23, 2010. However, the Administration has urged insurance companies and employers to prevent a gap in coverage for young adults aging off of their parents' policy prior to this effective date. To date, over 65 insurers have volunteered to do so. You should check with your insurance company or employer to see if they are offering this coverage option.

Q: Will young adults be given a special chance to enroll after September 23, 2010?

A: Yes. For plan or policy years beginning on or after September 23, 2010, plans and issuers must give children who qualify an opportunity to enroll that continues for at least 30 days regardless of whether the plan or coverage offers an open enrollment period. This enrollment opportunity and a written notice must be provided not later than the first day of the first plan or policy year beginning on or after September 23, 2010. Some plans may provide the opportunity before September 23, 2010.

Q: Will young adults have to pay more for coverage or accept a different benefit package?

A: Any qualified individual must be offered all of the benefit packages available to children who did not lose coverage because of loss of dependent status. The qualified young adult cannot be required to pay more for coverage than similarly situated individuals who did not lose coverage due to the loss of dependent status.

Q: Can plans or issuers who offer dependent coverage continue to impose limits on who qualifies based upon financial dependency, marital status, enrollment in school, residency or other factors?

A: No. Plans and issuers that offer dependent coverage must provide coverage until a child reaches the age of 26. There is one exception for group plans in existence on March 23, 2010. Those group plans may exclude adult children who are eligible to enroll in an employer-sponsored health plan, unless it is the group health plan of their parent. This exception is no longer applicable for plan years beginning on or after January 1, 2014.

Q: Does the adult child have to purchase an individual policy?

A: No. Eligible adult children wishing to take advantage of the new coverage will be included in the parents' family policy.

Q: Will Medicare cover adult children in the same way that private health insurance will?

A: No. The provision does not apply to Medicare.

Q: Are both married and unmarried young adults covered?

A: Yes

Q: Are plans or issuers required to provide coverage for children of children receiving the extended coverage?

A: No

Q: Why is there a special exception for group plans in existence on March 23, 2010?

A: Our goal is to cover as many young adults under the age of 26 as possible with the least amount of burden. If a young adult is eligible to purchase other employer-based health insurance such as through her job, the law does not require the parent or parents' plan to enroll that child if the parents' plan is a grandfathered health plan (i.e., in existence on March 23, 2010). Of course, all group plans have the option to cover all adult children until the age of 26 or beyond. In 2014, this exception will no longer apply.

Q: What happens if a young adult under the age of 26 is not eligible for employer-sponsored insurance and both parents have separate plans that offer dependent coverage?

A: Neither parent's plan can deny coverage.

Q: Does the law apply to plans or issuers that do not provide dependent coverage?

A: No. There is no federal requirement compelling a plan or issuer to offer dependent coverage at this time. However, the vast majority of group health plans offer dependent coverage and many family policies exist in the individual market.

Q: Are insurers doing anything to help young adults prior to the September 23rd implementation date?

A: Secretary Kathleen Sebelius called on leading insurance companies to begin covering young adults voluntarily before the September 23rd implementation date required by the Affordable Care Act. Early implementation would avoid gaps in coverage for new college graduates and other young adults and save on insurance company administrative costs of dis-enrolling and re-enrolling them between May 2010 and September 23, 2010. Many companies have responded including:

Blue Cross and Blue Shield of Alabama
Blue Cross Blue Shield of Delaware
Blue Cross and Blue Shield of Arizona, Inc.
Blue Cross and Blue Shield of Florida
Arkansas Blue Cross and Blue Shield
Blue Cross and Blue Shield of Hawaii
Blue Shield of California
Blue Cross of Idaho Health Service
Regence Blue Shield of Idaho
Wellmark Blue Cross and Blue Shield of Iowa
Health Care Service Corporation
Blue Cross and Blue Shield of Kansas
Blue Cross Blue Shield Association
Blue Cross and Blue Shield of Louisiana

WellPoint, Inc.
CareFirst BlueCross and BlueShield
Blue Cross and Blue Shield of Massachusetts
Blue Cross and Blue Shield of Kansas City
Blue Cross and Blue Shield of Michigan
Blue Cross and Blue Shield of Montana
Blue Cross and Blue Shield of Minnesota
Blue Cross and Blue Shield of Nebraska
Blue Cross & Blue Shield of Mississippi
Horizon Blue Cross and Blue Shield of New Jersey, Inc.
HealthNow New York, Inc.
The Regence Group
Excellus Blue Cross and Blue Shield
Capital BlueCross
Blue Cross and Blue Shield of North Carolina
Independence Blue Cross
BlueCross BlueShield of North Dakota
Highmark, Inc.
Blue Cross of Northeastern Pennsylvania
BlueCross and BlueShield of Tennessee
Blue Cross and Blue Shield of Vermont
Blue Cross & Blue Shield of Rhode Island
Premera Blue Cross
Blue Cross and Blue Shield of South Carolina
Blue Cross and Blue Shield of Wyoming
Kaiser Permanente
Cigna
Aetna
United
WellPoint
Humana
Capital District Physicians' Health Plan (CDPHP), Albany, New York
Capital Health Plan, Tallahassee, Florida
Care Oregon, Portland, Oregon
Emblem Health, New York, New York
Fallon Community Health Plan, Worcester, Massachusetts
Geisinger Health Plan, Danville, Pennsylvania
Group Health, Seattle, Washington
Group Health Cooperative Of South Central Wisconsin, Madison, Wisconsin
Health Partners, Minneapolis, Minnesota
Independent Health, Buffalo, New York
Kaiser Foundation Health Plan Oakland, California
Martin's Point Health Care, Portland, Maine
New West Health Services, Helena, Mt
The Permanente Federation, Oakland, California
Priority Health, Grand Rapids, Michigan
Scott & White Health Plan, Temple, Texas
Security Health Plan, Marshfield, Wisconsin
Tufts Health Plan, Waltham, Massachusetts
UCARE, Minneapolis, Minnesota

UPMC Health Plan, Pittsburgh, Pennsylvania

Q: I understand that there are tax benefits related to the extension of dependent coverage. Can you explain these benefits?

A. Under a change in tax law included in the Affordable Care Act, the value of any employer-provided health coverage for an employee's child is excluded from the employee's income through the end of the taxable year in which the child turns 26. This tax benefit applies regardless of whether the plan or the insurer is required by law to extend health care coverage to the adult child or the plan or insurer voluntarily extends the coverage.

Q: When does this tax benefit go into effect?

A: The tax benefit is effective March 30, 2010. Consequently, the exclusion applies to any coverage that is provided to an adult child from that date through the end of the taxable year in which the child turns 26.

Q: Who benefits from this tax treatment?

A: This expanded health care tax benefit applies to various workplace and retiree health plans. It also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Q: May employees purchase health care coverage for their adult child on a pre-tax basis through the employer's cafeteria plan?

A: Yes. In addition to the exclusion from income of any employer contribution towards qualifying adult child coverage, employees may pay the employee portion of the health care coverage for an adult child on a pre-tax basis through the employer's cafeteria plan – a plan that allows employees to choose from a menu of tax-free benefit options and cash or taxable benefits. The IRS provided in recent guidance [(Notice 2010-38)] that the cafeteria plan could be amended retroactively up until December 31, 2010 to permit these pre-tax salary reduction contributions.

Q: It seems like plans and insurers can terminate dependent coverage after a child turns 26, but employers are allowed to exclude from the employee's income the value of any employer-provided health coverage through the end of the calendar year in which the child turns age 26. This is confusing.

A. Under the law, the requirement to make adult coverage available applies only until the date that the child turns 26. However, if coverage extends beyond the 26th birthday, the value of the coverage can continue to be excluded from the employee's income for the full tax year (generally the calendar year) in which the child had turned 26. For example, if a child turns 26 in March but is covered under the employer plan of his parent through December 31st (the end of most people's taxable year), the value of the health care coverage through December 31st is excluded from the employee's income for tax purposes. If the child stops coverage before December 31st, then the premiums paid by the employee up to the time the plan was stopped will be excluded from the employee's income.